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Sinclair, John

On the paper circulation of
Scotland

[Edinburgh?]

[1826]

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PAPER CIRCULATION OF SCOTLAND;

PROVING, THAT THE SUCCESS OF THE BANKING SYSTEM IN THAT COUNTRY
DEPENDS ON THE CIRCULATION OF SMALL NOTES.

BY

THE RIGHT HONOURABLE SIR JOHN SINCLAIR, BART.

1826

"To the Banks of Scotland, the improvement of that country is entirely owing."—Sir James Stewart's Political Economy, published an. 1767, (or nearly sixty years ago.) Last edition, vol. iii. p. 197.

"Since the introduction of Bank paper, the circulating gold and silver in Scotland have suffered a great diminution; but its real riches and prosperity do not appear to have suffered any loss. On the contrary, its agriculture, manufactures and trade, or the annual produce of its land and labour, have evidently been augmented."—Dr Adam Smith's Wealth of Nations, Book II, Chapter 2.

A SYSTEM of Banking, and paper circulation, has been established in Scotland, of so superior a description, that it has rendered that country, with a barren soil, and an unfavourable climate, perhaps the most prosperous of any in Europe. The system has already existed for above a century; and been conducted on such judicious principles, that the public has not, except in two instances, suffered any loss from the bankruptcies of those who circulated paper, and these only to a very trifling amount*.

The foundation of the whole rests on the issue of *small notes*, as will appear from the following detail.

1. As the circulation of paper, and of small notes in particular, yield the Bankers a profit, they can afford to pay an interest, of from 3 to 4 *per cent. per annum*, on sums deposited with them. This is a great advantage "to the public," as it leaves no capital unemployed, or unproductive; and to the Banks; for with the capital thus obtained, they can enlarge their accommodations to the public, and derive additional profit. If small notes were prohibited, an end would, in a great measure, be put to this part of the Scottish system; for bankers could not afford the same interest for money deposited with them, unless it could be rendered available in maintaining their circulation. It is owing to the want of the profits of circulation, that the London bankers cannot afford interest on money deposited with them.

2. The practice of granting "cash credits or accounts" is the most useful measure that ever was invented in regard to banking, and has been brought in Scotland to a degree of perfection, altogether unknown in any other country. By it, a Bank accommodates persons of small property, on adequate security, with credit to a limited extent, *fc.* enabling them either to begin or to carry on business, whether in trade, manufactures, agriculture, or the fisheries, and on terms peculiarly advantageous to them; for small sums, as low as £.10, or even £.5, are received, or paid out, and interest is charged alone on the balance due in the account. This excellent part of the Scottish system, likewise, depends entirely on the power of issuing small notes.

3. It is a custom with the greater Banks in Scotland, to establish branches in various parts of the country, greatly to their own advantage, but still more, to that of the place where the branch is established; for, in this way, capital is introduced into remote districts, where otherwise it could not be procured. It is by means of these branches, that the great fisheries now carried on in the northern parts of Scotland, that important source of our naval strength, were established; and without them, they must decay. It is evident that it would be no advantage to any Bank to establish branches, if it were obliged to circulate specie, for which it paid full value, and which

* In a century, the total loss has amounted only to about £.10,000.

must be sent to a remote district, at much risk and expense. It is the profit derived from the circulation of small notes, which is the great inducement; and with their extinction, the establishment of these numerous and most useful branches would cease.

On these principles, a safe and abundant circulation *in paper*, chiefly consisting of small notes, but convertible into gold on demand, has been spread over the whole of Scotland, and has been found productive of the most useful consequences. Were these principles to be altered, the whole benefits which have resulted from them would be annihilated.

A circulation exclusively in coin, on the other hand, besides being subject to numerous disadvantages, as the expense of coining, risk of conveyance, wear and tear, &c., would be ruinous to a country naturally poor, subject to a heavy load of taxation, and situated at a distance from the Bank of England, the Mint, and those foreign markets where the precious metals are to be obtained. Nay, if the necessary amount of gold could, by great sacrifices, be once procured, yet how is it possible to retain it in sufficient quantities, for the transaction of business, in remote districts, whence it is so liable to be exported, to discharge commercial balances, or sent to the metropolis, to pay the rents of absentee landlords, or the demands in taxes of the Exchequer? More goods must then be exported, for the purpose of procuring a fresh supply of the medium of circulation; the returns of which could not be rendered available *in specie*, for a considerable period of time.

No wonder, then, that a currency in paper, which may be obtained with so little expense, is preferred to one that must be purchased at a high price, and is constantly requiring fresh supplies. A currency in coin, therefore, may be justly considered, "*the source of poverty*," while a circulation in paper is "*the source of wealth*," not only to individuals, but to the public, from the stamps to which notes are liable, on the one hand, and the saving of the expense of coinage, on the other.

It may be proper to add, that the Scotch Banks have an excellent practice, that of exchanging their notes with each other twice a week. This effectually prevents greater issues than the public has occasion for. The surplus is thus taken out of circulation, and is paid by the indebted Bank, either in coin, or by a bill on London, at a short date.

On the whole, to prohibit the circulation of small notes in Scotland, which existed *before the Union*, and is indirectly sanctioned *by that solemn treaty*, would necessarily occasion great general distress, and must even bring ruin on many improving districts in that part of the United Kingdom. It would diminish the tribute of four millions *per annum*, which it now remits to the English Exchequer; and as long as the prohibition remained in force, Scotland might become a source of expense, and not of revenue, to the empire at large.

Is it possible that such a system can be overturned, which is the admiration of all who have studied it; which, it appears, is sanctioned by the authority of the greatest political economists, (Sir James Stewart, and Dr Adam Smith); and which, while it is possessed of so many advantages, is not liable even to one solitary objection? and why? merely because, that in England, Banking has not hitherto been placed on a proper footing, (though its defects are now about to be remedied); and it is necessary to have a precise uniformity in the circulation of the two kingdoms. Would it not be better, instead of introducing an untried system into a country which desires no change, and has never felt a need of any, and which views the attempt with universal abhorrence, to extend our wise institutions to England, that it may enjoy similar prosperity to that which Scotland has derived from them?

JOHN SINCLAIR.

133, George Street, Edinburgh, }
7th March 1826. }

N. B.—There can be no objection to prohibiting the circulation of Scotch notes in England, under the severest penalties.

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